



Forget Suncor (TSX:SU): Here Are 3 Better Energy Stock Picks

Description

The soaring of the energy sector in Canada continues. The **TSX Capped Energy Index** is still trading at a 72% premium to its pre-pandemic peak, and it's just 25% off from its 2014 peak.

The sector experienced a sharp dip a while back, but it has started growing again, and if the new [bull market](#) phase has the potential to continue for a long time, you may consider riding the wave. You have apparent choices like **Suncor**, but there might be much better alternatives.

An independent energy producer

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is similar to Suncor in market capitalization, even though the company's market cap is currently over \$22 billion higher than Suncor's. It's also a significant oil and natural gas producer, but not a fully integrated energy company.

Its position as one of the largest independent natural gas, heavy crude, and natural gas liquids (NGL) producers in Canada offers it more stability than smaller producers.

This was evident from the stock's performance between 2014 and 2020. It was one of the few energy companies of its size that reclaimed its 2014 peak (at least briefly), and it's also one of the few energy stocks currently trading near an all-time high price point.

The modest valuation, evident from its price-to-earnings ratio of 7.8, may indicate that the company might be able to sustain this growth, as it's backed by healthy financials. The yield is also attractive enough at 3.9%.

A mid-stream operator

Keyera ([TSX:KEY](#)) has a different business model than Suncor or even Canadian Natural Resources. It's a midstream company, one of the largest in Canada, with three core businesses: gathering and processing infrastructure, liquid infrastructure, and marketing. The infrastructure Keyera owns includes

4,400 km of pipelines for transporting natural gas, 12 gas-processing plants, and 17 underground caverns to store NGL.

The focus on natural gas and its derivative products is a significant strength of the company. Unlike oil, the primary target of environmental laws (after oil), natural gas is a much cleaner fuel and may have a place in our green future.

As long as its demand steadily grows, companies like Keyera, involved in various aspects of its delivery to the consumer, may thrive. This makes it a much better bet than oil sands-heavy Suncor.

A pipeline company

Pipeline companies like **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) might be a safer bet compared to a company like Suncor.

That's because a pipeline company has a different income structure than an oil producer or even an integrated energy company, and it may be less dependent upon the per barrel price of oil. Pipeline companies rely upon long-term contracts for which the prices may not be revised, even if the oil price goes down.

This stability has also been reflected in the stock's performance. It fell brutally after the 2014 peak, but it achieved a much higher level of recovery than many other energy stocks. It also didn't experience an abnormal post-pandemic growth, which means that it may be one of the few energy stocks that stay safe against the correction the energy sector is likely to go through.

Foolish takeaway

Two of the three, Pembina and Canadian Natural Resources, are large-cap stocks. And they may remain large caps, even when corrections happen. All three offer healthy enough dividend yields, but the long-term capital-appreciation potential is difficult to predict.

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1. Energy Stocks
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2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:KEY (Keyera Corp.)
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